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C O N F I D E N T I A L SECTION 01 OF 02 COLOMBO 000437

SIPDIS

FOR EB A/S E. ANTHONY WAYNE FROM AMBASSADOR LUNSTEAD

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TAGS: [EFIN](#) [ETTC](#) [PREL](#) [PTER](#) [MV](#) [CE](#) [LTTE](#)

SUBJECT: TERRORIST FINANCE FOLLOW UP: SRI LANKA AND MALDIVES

REF: STATE 37211

Classified By: Ambassador Jeffrey J. Lunstead, Reasons 1.5 B, D and E

1. (C) Summary: Post believes the GSL and the GORM have been fully cooperative with counterterrorism finance initiatives, to the extent they are able. While neither has frozen terrorist assets, we do not believe either Sri Lanka or the Maldives presents an attractive banking alternative for terrorist elements at this time. Sri Lanka has dealt with an internal terrorist element for over twenty years and is fully cooperative with the US in the war on terror. Maldives is a moderate Islamic country that is highly protective of its stature as a safe tourist haven and is fairly aggressive in combating fundamentalist tendencies. Moreover, US Treasury teams are slated to arrive in both countries in late April to conduct AML training and to provide additional technical assistance to both Governments and banking sectors. End Summary

2. (C) In response to reftel, Post believes both Governments of Sri Lanka and Maldives are making their best efforts in the realm of combating terrorist financing, but a lack of capacity may hamper their success. While both Sri Lanka and the Maldives have initiated efforts to track terrorist financing, neither have frozen any accounts based on USG or UN distributed information. At this point, Post has no evidence to suggest there are assets to be frozen. Nonetheless, efforts to expand capabilities and look more closely at Liberation Tigers of Tamil Eelam (LTTE) financing could prove useful. Sri Lanka is enjoying a two-year old cease-fire agreement with the LTTE, a US-designated Foreign Terrorist Organization. The GSL has been the victim of repeated terrorist attacks, has welcomed training and assistance to help weaken LTTE networks and is fully cooperative with the US in the war on terror. It recognizes the effects of terrorism as a drag on economic development. Maldives is a moderate Muslim nation whose economy is almost entirely dependent on tourism. It values its reputation as a "safe" country and is not tolerant of fundamentalist brands of Islam operating on its soil. Both countries welcome assistance from the US and other members of the international community, both have established new rules and procedures in their banking sectors since September 11, 2001 and both countries have a lot to lose, and very little to gain, from allowing terrorist elements to operate in their countries.

3. (C) A US Treasury team recently conducted an assessment of the Sri Lankan financial sector and concluded that there are weaknesses in the banking sector open to possible exploitation. The assessment concluded that drugs, human smuggling and corruption are the crimes that generate most money laundering problems in Sri Lanka. The assessments also found areas where additional assistance is warranted, including new anti-money laundering legislation; training for Central Bank and banking sector employees; training for judges, prosecutors and investigators; the development of a casino regulatory scheme and awareness training for legislators and other government officials.

4. (C) Hawala networks are also used in Sri Lanka, though their informal nature makes them difficult to track. Most Hawala transactions are for the repatriation of funds from workers abroad. (Note: Sri Lanka has over one million citizens working abroad, most in the Middle East. End Note.) It is possible that some terrorist financing is conducted through Hawala networks in the North and East of the country, as these areas are largely controlled by the LTTE and outside the purview of the GSL. To date we have little indication of broader LTTE cooperation with other transnational terrorist groups.

5. (C) While recognizing the efforts the GSL has made in this area, it is important we continue to press the GSL to do more. We should continue to press them to upgrade their investigative capacity, improve their legal and regulatory infrastructure and pass and enforce new, strengthened anti-money laundering and counter-terrorist finance laws. Maldives also should upgrade its laws and continue to seek training for its banking sector, in order to avoid becoming a sector of interest for terrorist financiers. US Treasury teams will arrive in both countries in late April to conduct anti-money laundering training.

16. (C) With regard to the questions posed in reftel para 10, Post has three suggestions. First, with regard to the GSL, additional assistance - which could probably be tied to the upcoming Treasury Department training - in the area of developing laws and ensuring that pending legislation is modern and effective could be useful. Perhaps there have been some insights gained in the past two and a half years, as countries have frozen assets and prosecuted cases, as to what kinds of legislation are most effective and what stipulations have proven problematic. Perhaps there would be value in a wider information sharing exercise between law enforcement and judicial elements on the subject.

17. (C) Second, if it has not already been done, US terrorism finance experts might consider a closer examination of groups like the LTTE. The LTTE is highly sophisticated and its financial network and supply chains are formidable. It might prove interesting for experts with experience in terrorist financing patterns to come to Colombo and explore what is known about LTTE methods. The GSL has been dealing with this indigenous terrorist threat for a long time and might have some insights worth considering.

18. (C) Finally, as freezing assets and working this issue has demanded additional time and resources on the part of Governments, perhaps the US should consider developing a list of cooperating countries. Criteria could be established and it might potentially feed into the Millennium Challenge Account process for developing countries or boost a country's chances for additional training or assistance in this area. Since this is also related to a wider UN effort, perhaps some kind of remunerative incentive could be given ) like deducting the amount of assets frozen from a country's NY parking fines.  
LUNSTEAD